REAL ESTATE

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INSIDE

Average long-term mortgage rate falls a fourth straight week

By Matt Ott
APP BUSINESS WRITER

WASHINGTON — The average long-term U.S. mortgage rate fell for the fourth consecutive week and have dropped more than three-quarters of a point since hitting a 20-year high last month.

Mortgage buyer Freddie Mac reported Thursday that the average on the benchmark 30-year rate dipped to 6.33% from 6.49% last week. A year ago the average rate was 3.1%.

The average long-term rate sat at 7.08% in early November, but has since had the steepest 4-week decline since 2008.

"While the decline in rates has been large, homebuyer sentiment remains low with no major positive reaction in purchase demand to these lower rates," said Sam Khater, Freddie Mac's chief economist.

Mortgage rates are still more than double what they were a year ago, mirroring a sharp rise in the yield on the 10-year Treasury note. The yield is influenced by a variety of factors, including global demand for U.S. Treasurys and investor expectations for future inflation, which heighten the prospect of rising interest rates overall.

The Federal Reserve, which has been hiking its short-term lending rate since March in a bid to crush the highest inflation in decades, raised its rate again early this month by 0.75 percentage points, three times its usual margin, for a fourth time this year. Its key rate now stands in a range of 3.75% to 4%.

Markets rallied last week after Fed Chair Jerome Powell signaled that the Fed may increase its key interest rate by just a half-point at its December meeting.

SOUND OFF

Do you expect another interest rate increase this year?

A: In the late November 2022 Federal Reserve meeting, Chairman Jerome Powell noted that the pace of rate increases may be reduced in the coming months, but he also signaled that another relatively small rate increase may occur in the fourth quarter of this year.

Lenders are preparing not only for that imminent increase, but also for a potential additional increase in quarter one of 2023. The sum of the two increases may amount to a 1% bump in mortgage rates by sometime early next year. The Fed's stated objective is to bring more balance between supply and demand in the housing market and to correct for its overheated state over the last few years.

Rate-conscious buyers have slowed their searches, many homes are sitting on the market longer, and sellers are making more concessions to get into contract.

Many buyers are stymied by scary headlines and the reality of decreased purchase power, but now may be a great time for rate-tolerant buyers and cash-heavy investors to take advantage of the price decreases and higher days on market, particularly with condos.

Call your preferred lender and agent and see what's possible.

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A: The same Federal Reserve that rushed to cut interest rates amid the coronavirus pandemic is now staging the most aggressive race to raise borrowing costs in four decades, and said its battle against inflation will require borrowing costs to rise further, yet signaled it may be nearing an inflection point.

The message left open the possibility the U.S. central bank may raise rates in smaller increments in the future, while also leaving policymakers room to continue pushing rates higher if inflation doesn't start to slow. Fed Chair Jerome Powell said even if policymakers do scale back future increases, they were still undecided about just how high rates would need to rise to curb inflation, and were determined to stay the course until the job's done.

The Fed likely isn't done yet, though the destination remains unclear. Policymakers are expected to stop raising interest rates altogether at some point in 2023, though they'll likely stay at an elevated level for some time. Where the Fed is heading — and where it'll end up — depends on inflation and the labor market.

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A: Federal Reserve Chairman Powell has a tough decision ahead. On the one hand he has this thing we call "data" — most notably the Consumer Price Index (CPI) and employment. On the other hand he has this thing we call "Elon Musk," demanding rate cuts to avoid a recession. Thankfully, our Fed Chairman prefers data.

While recession risk is real, Powell is laser focused on reining in inflation. The latest numbers suggest inflation is calming — annual inflation growth is at 7.7%, down from 9.1% in June. Unfortunately we're still quite far from the Fed's 2% target.

The Fed will make its decision largely based upon the December 13 inflation report. So long as inflation stays high, I'd count on the Fed implementing rate hikes. Thankfully, most analysts predict this next rate hike won't be as big. If you're thinking to buy with financing, time to consider those 5-year and 7-year adjustable-rate mortgages.

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